Kopanong Local Municipality
Annual Financial Statements
for the year ended 30 June 2018

General Information

Legal form of entity	Local municipality
Nature of business and principal activities	Local municipality performing the functions as set out in the Constitution, Act no 105 of 1996
Municipal demacation code	FS162
Grading of local authority	3
Council committee	
Mayor	Matwa TX
	Dlomo LK (Speaker)
	Jan NM (Chief Whip)
Councillors	Basholo PD
	Moitse J
	Smith B
	Van Wyk RW
	Phafudi TA
	Sola SA
	Shebe H
	May LM
	Rasoeu LG
	Makoa L
	Moeketsi J
	Phoba MJ
	Mjika ME
Accounting Officer	Kubeka MM
Chief Finance Officer (CFO)	Koatla MP
Registered office	20 Louw Street Trompsburg 9913
Postal address	Private Bag X23 Trompsburg 9913
Bankers	First National Bank
Auditors	The Auditor-General of South Africa
Attorneys	Mohlokonya Attorneys Maduba Attorneys
Members of the Audit Commitee	Thole S (Chairperson) Moletsane B (Resigned on 24/03/2018) Seseane O Vapi V

General Information

Enabling legislation	Municipal Finance Management Act (Act no. 56 of 2003) Division of Revenue Act The Income Tax Act (Act no. 58 of 1962) Value Added Tax Act (Act no 89 of 1991) Municipal Structures Act (Act no. 117 of 1998) Municipal Systems Act (Act no. 32 of 2000) Municipal Planning anf Performance Management Regulations Housing Act (Act no. 107 of 1997) Skills Development Levies Act (Act no. 9 of 1999) Employment Equity Act (Act no. 55 of 1998) Unemployment Insurance Act (Act no. 30 of 1966) Basic Conditions of Employment Act (Act no. 75 of 1997) Supply Chain Management Regulations, 2005 Disaster Management Act of 2016 Spatial Planning and Land Use Management Act (Act 16 of 2013)

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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COID	Compensation for Occupational Injuries and Diseases
DoRA	Division of Revenue Act
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
FMG	Finance Management Grant
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IDP	Integrated Development Plan
IMFO	Institute of Municipal Finance Officers
INEP	Intergrated National Electrification Programme
MSA	Municipal Systems Act
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal System Improvement Grant
NERSA	National Energy Regulator of South Africa
PAYE	Pay As You Earn
SALGA	South African Local Government Associaton
SARS	South African Revenue Services

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future. For detailed going concern assumptions refer to note 42.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Corporative Governance determination in accordance with this Act.

The annual financial statements set out on pages 6 to 77, which have been prepared on the going concern basis, were approved by the accounting officer on 30 September 2018 and were signed on its behalf by:

Kubeka MM
Municipal Manager

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2018.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interest of the local community within the Kopanong municipal area and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 92 454 412 (2017: R 88 326 746.

2. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated defict of R 535 877 047 and that the municipality's total assets exceed its liabilities by R 535 877 047.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

Furthermore management has reviewed the municipality's cash flow forecast for the year ended 30 June 2019 and, in the light of this review and the current financial position, management is satisfied that the municipality has, or has acess to, adequate resoources to continue it's operation existing for the foreseeable furture.

The municipality still has the ability to levy services, rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocations as published in terms of the Division of Revenue Act (Act 1 of 2016).

For details of managements assumptions with respect to the applicability of the going concern assumption refer to note 42.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

No matters to report.

5. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP), including any directives and interpretations of such Standards issued by the Accounting Standards Board as the prescribed framework by National Treasury, and in accordance with Section 122(3) of the Municipal Finance Management Act (Act No.56 of 2003).

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality	Changes
Kubeka MM	South African	Appointed on 01 August 2017
Moletsane LY	South African	Contract ended on 31 July 2017

7. Auditors

The Auditor-General of South Africa will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	6	121 088	93 252
Other receivables from exchange transactions	7&10	1 511 576	3 190 890
Receivables from non-exchange transactions	10	3 100 284	2 875 316
VAT receivable	8	23 623 751	21 163 324
Receivables from exchange transactions	9	19 037 589	24 219 365
Cash and cash equivalents	11	1 640 287	2 060 746
		49 034 575	**53 602 893**
Non-Current Assets			
Property, plant and equipment	3	929 154 281	935 801 704
Intangible assets	4	8 325	13 796
		929 162 606	**935 815 500**
Total Assets		**978 197 181**	**989 418 393**
Liabilities			
Current Liabilities			
Other financial liabilities	13	179 928	179 928
Payables from exchange transactions	15	355 519 343	295 675 274
VAT payable	16	28 264 243	19 476 006
Consumer deposits	17	4 042 122	4 008 370
Employee benefit obligation	5	1 680 000	1 058 000
Unspent conditional grants and receipts	12	27 349 190	17 179 467
Provisions	14	1 100 429	965 409
		418 135 255	**338 542 454**
Non-Current Liabilities			
Other financial liabilities	13	909 504	1 089 433
Employee benefit obligation	5	12 913 000	13 011 000
Provisions	14	10 362 375	8 444 038
		24 184 879	**22 544 471**
Total Liabilities		**442 320 134**	**361 086 925**
Net Assets		**535 877 047**	**628 331 468**
Accumulated surplus		535 877 047	628 331 468

* See Note 39

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Sale of goods		724 680	376 463
Service charges	19	100 848 179	105 119 160
Fees earned		5 037	3 966
Rental of facilities and equipment	20	1 104 367	1 169 872
Interest received (trading)		10 461 404	11 949 563
Insurance claims		3 200 931	-
Sundry income	21	985 158	1 160 222
Interest received - investment	22	211 996	1 041 039
Total revenue from exchange transactions		**117 541 752**	**120 820 285**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	18 221 984	16 265 881
Transfer revenue			
Government grants & subsidies	24	113 210 549	107 169 693
Fines, Penalties and Forfeits		-	34 048
Total revenue from non-exchange transactions		**131 432 533**	**123 469 622**
Total revenue	18	**248 974 285**	**244 289 907**
Expenditure			
Employee related costs	25	(107 874 407)	(102 740 736)
Remuneration of councillors	26	(5 255 981)	(3 527 609)
Administration	27	(1 311 429)	(2 200 654)
Depreciation and amortisation	28	(42 958 191)	(42 366 225)
Impairment loss/ Reversal of impairments		(1 636 651)	(132 843)
Finance costs	29	(27 909 524)	(23 302 298)
Lease rentals on operating lease		(1 082 150)	(2 000 078)
Debt Impairment	30	(54 803 372)	(41 620 974)
Repairs and maintenance	3	(6 182 291)	(6 566 128)
Bulk purchases	31	(76 592 657)	(86 352 749)
General expenses	32	(17 453 865)	(18 832 432)
Total expenditure		**(343 060 518)**	**(329 642 726)**
Operating deficit		**(94 086 233)**	**(85 352 819)**
Loss on disposal of assets		-	(3 066 782)
Actuarial gains	5	1 631 821	92 855
		1 631 821	**(2 973 927)**
Deficit for the year		**(92 454 412)**	**(88 326 746)**

* See Note 39

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	719 503 794	719 503 794
Adjustments		
Correction of errors	(2 845 580)	(2 845 580)
Balance at 01 July 2016 as restated*	**716 658 214**	**716 658 214**
Changes in net assets		
Surplus for the year	(88 326 746)	(88 326 746)
Total changes	(88 326 746)	(88 326 746)
Restated* Balance at 01 July 2017	**628 331 459**	**628 331 459**
Changes in net assets		
Surplus for the year	(92 454 412)	(92 454 412)
Total changes	(92 454 412)	(92 454 412)
Balance at 30 June 2018	**535 877 047**	**535 877 047**

* See Note 39

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from customers		76 923 086	70 686 008
Grants		123 380 272	120 632 258
Interest income		10 673 400	12 990 602
		210 976 758	204 308 868
Payments			
Employee costs		(110 974 567)	(106 032 693)
Suppliers		(34 391 249)	(40 264 661)
Finance costs		(27 909 524)	(23 937 441)
		(173 275 340)	(170 234 795)
Net cash flows from operating activities	34	**37 701 418**	**34 074 073**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(37 939 448)	(32 745 967)
Purchase of other intangible assets	4	(2 500)	-
Net cash flows from investing activities		**(37 941 948)**	**(32 745 967)**
Cash flows from financing activities			
Proceeds from other financial liabilities		-	(357 855)
Repayment of other financial liabilities		(179 929)	177 928
Net cash flows from financing activities		**(179 929)**	**(179 927)**
Net increase/(decrease) in cash and cash equivalents		**(420 459)**	**1 148 179**
Cash and cash equivalents at the beginning of the year		2 060 746	912 567
Cash and cash equivalents at the end of the year	11	**1 640 287**	**2 060 746**

* See Note 39

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	-	-	**-**	724 680	**724 680**	51.1
Service charges	133 086 445	(25 543 146)	**107 543 299**	100 848 179	**(6 695 120)**	51.2
Rendering of services	-	-	**-**	5 037	**5 037**	51.3
Rental of facilities and equipment	1 255 316	(471 408)	**783 908**	1 104 367	**320 459**	51.4
Interest received (trading)	11 826 741	97 460	**11 924 201**	10 461 404	**(1 462 797)**	51.5
Insurance claims	-	-	**-**	3 200 931	**3 200 931**	51.6
Other income	37 287 145	(15 525 955)	**21 761 190**	985 158	**(20 776 032)**	51.7
Interest received - investment	1 368 713	(1 093 882)	**274 831**	211 996	**(62 835)**	51.8
Total revenue from exchange transactions	**184 824 360**	**(42 536 931)**	**142 287 429**	**117 541 752**	**(24 745 677)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	18 439 498	823 094	**19 262 592**	18 221 984	**(1 040 608)**	51.9
Transfer revenue						
Government grants & subsidies	127 563 000	-	**127 563 000**	113 210 549	**(14 352 451)**	51.10
Fines, Penalties and Forfeits	54 252	(54 252)	**-**	-	**-**	
Total revenue from non-exchange transactions	**146 056 750**	**768 842**	**146 825 592**	**131 432 533**	**(15 393 059)**	
Total revenue	**330 881 110**	**(41 768 089)**	**289 113 021**	**248 974 285**	**(40 138 736)**	
Expenditure						
Personnel	(106 969 632)	1 677 000	**(105 292 632)**	(107 874 407)	**(2 581 775)**	51.11
Remuneration of councillors	(4 583 469)	-	**(4 583 469)**	(5 255 981)	**(672 512)**	51.12
Administration	-	-	**-**	(1 311 429)	**(1 311 429)**	51.13
Depreciation and amortisation	(61 000 000)	-	**(61 000 000)**	(42 958 191)	**18 041 809**	51.14
Impairment loss	-	-	**-**	(1 636 651)	**(1 636 651)**	51.14
Finance costs	(315 020)	-	**(315 020)**	(27 909 524)	**(27 594 504)**	51.15
Lease rentals on operating lease	-	-	**-**	(1 082 150)	**(1 082 150)**	51.16
Debt Impairment	(28 827 935)	4 547 797	**(24 280 138)**	(54 803 372)	**(30 523 234)**	51.17
Repairs and maintenance	-	-	**-**	(6 182 291)	**(6 182 291)**	51.18
Bulk purchases	(78 260 461)	4 218 491	**(74 041 970)**	(76 592 657)	**(2 550 687)**	51.19
General Expenses	(74 654 364)	(10 414 898)	**(85 069 262)**	(17 453 865)	**67 615 397**	51.20
Total expenditure	**(354 610 881)**	**28 390**	**(354 582 491)**	**(343 060 518)**	**11 521 973**	
Operating deficit	**(23 729 771)**	**(41 739 699)**	**(65 469 470)**	**(94 086 233)**	**(28 616 763)**	
Actuarial gains/losses	-	-	**-**	1 631 821	**1 631 821**	51.21
Surplus/ (Deficit) for the year	**(23 729 771)**	**(41 739 699)**	**(65 469 470)**	**(92 454 412)**	**(26 984 942)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	93 252	-	**93 252**	121 088	**27 836**	
Other receivables from exchange transactions	-	-	**-**	1 511 576	**1 511 576**	
Receivables from non-exchange transactions	-	-	**-**	3 100 284	**3 100 284**	
VAT receivable	-	-	**-**	23 623 751	**23 623 751**	
Consumer debtors	3 129 473	-	**3 129 473**	19 037 589	**15 908 116**	
Cash and cash equivalents	2 062 104	-	**2 062 104**	1 640 287	**(421 817)**	
	5 284 829	**-**	**5 284 829**	**49 034 575**	**43 749 746**	
Non-Current Assets						
Property, plant and equipment	930 049 151	-	**930 049 151**	929 154 281	**(894 870)**	
Intangible assets	-	-	**-**	8 325	**8 325**	
	930 049 151	**-**	**930 049 151**	**929 162 606**	**(886 545)**	
Total Assets	**935 333 980**	**-**	**935 333 980**	**978 197 181**	**42 863 201**	
Liabilities						
Current Liabilities						
Other financial liabilities	179 928	-	**179 928**	179 928	**-**	
Payables from exchange transactions	308 622 142	-	**308 622 142**	355 519 340	**46 897 198**	
VAT payable	-	-	**-**	28 264 243	**28 264 243**	
Consumer deposits	-	-	**-**	4 042 122	**4 042 122**	
Employee benefit obligation	-	-	**-**	1 680 000	**1 680 000**	
Unspent conditional grants and receipts	-	-	**-**	27 349 190	**27 349 190**	
Provisions	-	-	**-**	1 100 429	**1 100 429**	
	308 802 070	**-**	**308 802 070**	**418 135 252**	**109 333 182**	
Non-Current Liabilities						
Other financial liabilities	-	-	**-**	909 504	**909 504**	
Employee benefit obligation	-	-	**-**	12 913 000	**12 913 000**	
Provisions	24 646 237	-	**24 646 237**	10 362 375	**(14 283 862)**	
	24 646 237	**-**	**24 646 237**	**24 184 879**	**(461 358)**	
Total Liabilities	**333 448 307**	**-**	**333 448 307**	**442 320 131**	**108 871 824**	
Net Assets	**601 885 673**	**-**	**601 885 673**	**535 877 050**	**(66 008 623)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	601 885 673	-	**601 885 673**	535 877 050	**(66 008 623)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Taxation	18 439 498	(3 029 498)	**15 410 000**	-	**(15 410 000)**	
Sale of goods and services	34 022 000	(17 143 000)	**16 879 000**	-	**(16 879 000)**	
Grants	127 563 000	-	**127 563 000**	-	**(127 563 000)**	
Other receipts	18 643 000	(7 762 000)	**10 881 000**	-	**(10 881 000)**	
	198 667 498	**(27 934 498)**	**170 733 000**	**-**	**(170 733 000)**	
Payments						
Suppliers	(203 111 803)	3 403 803	**(199 708 000)**	-	**199 708 000**	
Net cash flows from operating activities	**(4 444 305)**	**(24 530 695)**	**(28 975 000)**	**-**	**28 975 000**	
Net increase/(decrease) in cash and cash equivalents	(4 444 305)	(24 530 695)	**(28 975 000)**	-	**28 975 000**	
Cash and cash equivalents at the end of the year	**(4 444 305)**	**(24 530 695)**	**(28 975 000)**	**-**	**28 975 000**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including change/update in technology, supply demand, together with economic factors such as exchange rates inflation interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in note 5.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Useful lives and residual values

The entity's management determines the estimated useful lives, residual values and related depreciation charges for assets as noted in accounting policy 1.4 Property, plant and equipment. These estimates are based on industry norms.

Management will increase the depreciation charge prospectively where useful lives are less than previously estimated useful lives. Management will decrease the depreciation charge prospectively where useful lives are more than previously estimated useful lives.

Where changes are made to the estimated residual values, management also makes these changes prospectively.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Accounting Policies

1.4 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent measurement:

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Depreciation and impairment:

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is not depreciated as it has an indefinate useful life.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Each part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Components of asset that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Subsequent to initial recognition, property plant and equipment on the cost model, is carried at cost less accumulated depreciation and any accumulated impairment losses. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The useful lives of items of property, plant and equipment have been assessed as follows:

1.4 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	25 years
Landfill sites	Straight line	25 years
Furniture and fixtures	Straight line	1-10 years
Motor vehicles	Straight line	7-10 years
Office software	Straight line	3-5 years
Electricity infrastructure	Straight line	3-100 years
Roads infrastructure	Straight line	5-100 years
Water and sanitation infrstructure	Straight line	10-100 years

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset’s future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 3).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Derecognition:

1.4 Property, plant and equipment (continued)

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Property plant and equipment which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Commitments:

Where the municipality has a contractual commitment in respect of the acquisition of property, plant and equipment, these are disclosed in note 36.The commitments as disclosed are the contractual amount less aby payment made in respect of the contract.

1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

1.5 Financial instruments (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash and cash equivalents
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;

Accounting Policies

1.5 Financial instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Accounting Policies

1.5 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.5 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.5 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Accounting Policies

1.6 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

1.8 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

1.9 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.9 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.9 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.10 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

1.10 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating defict.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and

1.10 Provisions and contingencies (continued)

- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.11 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

1.12 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

1.13 Revenue from non-exchange transactions (continued)

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.13 Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.14 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.15 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.17 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Irregular expenditure

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Accounting Policies

1.20 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.21 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its annual financial statements.

1.22 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

Accounting Policies

1.22 Events after reporting date (continued)

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.23 Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

The Municipality accounts for VAT on a monthly basis.

1.24 Accumulated surplus

The municipality’s surplus or deficit for the year is accounted for in the accumulated surplus in the statement of changes in net assets.

The accumulated surplus/deficit represents the net difference between total assets and total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments relating to income and expenditure are debited/credited against accumulated surplus when retrospective adjustments are made.

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

GRAP 110: Living and Non-living Resources

The objective of this Standard is to prescribe the:
- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 110 (as amended 2016): Living and Non-living Resources

Amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the amendment is for years beginning on or after 01 April 2020.

The municipality expects to adopt the amendment for the first time in the 2020 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of 'minority interest' has been amended to 'non-controlling interest', and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

2. New standards and interpretations (continued)

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity’s annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users’ assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person’s family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The standard elaborates on the definitions and identification of:
- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:
- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 106 (as amended 2016): Transfers of functions between entities not under common control

Amendments to the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control resulted from changes made to IFRS 3 on Business Combinations (IFRS 3) as a result of the IASB’s amendments on Annual Improvements to IFRSs 2010 – 2012 Cycle issued in December 2013.

The most significant changes to the Standard are:
- IASB amendments: To require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting period.

The effective date of the amendment is for years beginning on or after 01 April 2019.

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2018 or later periods but are not relevant to its operations:

GRAP 12 (as amended 2016): Inventories

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 17 (as amended 2016): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term "specialist military equipment" in IPSAS 17 was replaced with the term "weapon systems" and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 21 (as amended 2016): Impairment of non-cash-generating assets

Amendments to the Standard of GRAP on Impairment of Non-cash Generating Assets resulted from changes made to IPSAS 21 on Impairment of Non-Cash-Generating Assets (IPSAS 21) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:
- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 26 (as amended 2016): Impairment of cash-generating assets

Amendments Changes to the Standard of GRAP on Impairment of Cash Generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets (IPSAS 26) as a result of the IPSASB’s Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB’s recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 31 (as amended 2016): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB’s Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:

- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

3. Property, plant and equipment

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	67 532 098	-	67 532 098	67 532 098	-	67 532 098
Buildings	328 695 998	(177 212 739)	151 483 259	325 495 067	(168 009 301)	157 485 766
Infrastructure	1 650 521 079	(946 105 033)	704 416 046	1 616 481 428	(912 799 746)	703 681 682
Other property, plant and equipment	18 710 424	(12 987 546)	5 722 878	18 011 558	(10 909 400)	7 102 158
Total	**2 065 459 599**	**(1 136 305 318)**	**929 154 281**	**2 027 520 151**	**(1 091 718 447)**	**935 801 704**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Impairment reversal
Land	67 532 098	-	-	-	-	-	
Buildings	157 485 766	3 200 931	-	-	(7 566 787)	(1 636 651)	
Infrastructure	703 681 682	34 039 651	-	-	(33 305 287)	-	
Other property, plant and equipment	7 102 158	698 866	-	-	(2 078 146)	-	
	935 801 704	**37 939 448**	**-**	**-**	**(42 950 220)**	**(1 636 651)**	

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	67 532 098	-	-	-	-	67 532 098
Buildings	164 139 066	897 987	-	(7 551 287)	-	157 485 766
Infrastructure	711 403 228	28 558 930	(2 920 279)	(33 252 247)	(107 950)	703 681 682
Other property, plant and equipment	5 513 586	3 289 050	(146 503)	(1 542 589)	(11 386)	7 102 158
	948 587 978	**32 745 967**	**(3 066 782)**	**(42 346 123)**	**(119 336)**	**935 801 704**

Pledged as security

No property plant and equipment has been pledged as security.

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Buildings	Total
Opening balance	51 708 120	8 232 628	59 940 748
Additions/capital expenditure	34 039 651	-	34 039 651
Transferred to completed items	(2 785 605)	-	(2 785 605)
	82 962 166	**8 232 628**	**91 194 794**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

3. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Buildings	Total
Opening balance	33 229 050	7 707 062	40 936 112
Additions/capital expenditure	28 558 928	897 987	29 456 915
Transferred to completed items	(10 079 858)	(372 421)	(10 452 279)
	51 708 120	**8 232 628**	**59 940 748**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance	2018	2017
Property plant and equipment - Buildings	161 612	55 890
Property plant and equipment - Other assets	1 661 172	1 468 696
Property plant and equipment - Infrastructure assets	4 359 507	5 041 544
	6 182 291	**6 566 130**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	156 331	(148 006)	8 325	153 831	(140 035)	13 796

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	13 796	2 500	-	(7 971)	8 325

Reconciliation of intangible assets - 2017

	Opening balance	Amortisation	Impairment loss	Total
Computer software	47 405	(20 103)	(13 506)	13 796

Pledged as security

No intangible assets have been pledged as security.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

5. Employee benefit obligation

The amounts recognised in the statement of financial position are as follows:

	2018	2017
Carrying value		
Present value of the post employment medical aid benefit obligation-wholly unfunded	(5 909 000)	(6 716 000)
Present value of the long service award obligation-wholly unfunded	(8 684 000)	(7 353 000)
	(14 593 000)	**(14 069 000)**
Non-current liabilities	(12 913 000)	(13 011 000)
Current liabilities	(1 680 000)	(1 058 000)
	(14 593 000)	**(14 069 000)**

Post retirement benefits

	2018	2017
Post Retirement Medical Aid Benefit		
Balance 1 July	6 716 000	7 055 000
Contribution for the year	47 000	101 000
Interest cost	656 000	563 000
Expenditure for the year	-	(588 000)
Actuarial gain	(1 510 000)	(415 000)
Total post retirement benefit - 30 June	5 909 000	6 716 000
	5 909 000	**6 716 000**

The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:

	2018	2017
Members		
In-service members	2	5
Continuation members (e.g. retirees, widows, orphans)	15	15
	17	**20**

The liability in respect of past service has been estimated to be as follows:

	2018	2017
Liability		
In-service members	654 000	1 386 000
Continuation members (e.g. retirees, widows, orphans)	5 255 000	5 330 000
	5 909 000	**6 716 000**

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

- LA Health
- Keyhealth
- Bonitas
- Hosmed
- Fedhealth
- Samwumed

	2018	2017
Key actuarial assumptions used:		
Discount Rate	Yield Curve	1Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and yield curves	1Difference between nominal and yield curves
Medical Aid Contribution Inflation	CPI+1%	1CPI+1%
Net Effective Discount Rate	Yield curve based	1Yield curve based

Notes to the Annual Financial Statements

5. Employee benefit obligation (continued)

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: “The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.” We used the nominal and real zero curves as at 29 June 2018 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

Average Retirement Age

The average retirement age for all active employees was assumed to be 60 years. This assumption implicitly allows for illhealth and early retirements.

Normal retirement age

It has been assumed that in-service members will retire at age 65, which then implicitly allows for expected rates of early and ill-health retirement.

Mortality rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and Dependants

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

Sensitivity Analysis on the Accrued Liability	**-1% Medical aid inflation**	**Valuation Assumption**	**+1% Medical aid inflation**
Total Accrued Liability	5 752 000	5 909 000	6 048 000
Interest Cost	540 000	555 000	569 000
	6 292 000	**6 464 000**	**6 617 000**

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2018

	-20% Mortality rate	**Valuation Assumption**	**+20% Mortality rate**
Total Accrued Liability	6 389 000	5 909 000	5 519 000
Interest Cost	603 000	555 000	516 000
	6 992 000	**6 464 000**	**6 035 000**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

5. Employee benefit obligation (continued)

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2018

Long service award

Long service award		
Balance 1 July	7 353 000	6 871 208
Contribution for the year	812 000	757 304
Interest cost	732 000	557 343
Expenditure for the year	(91 180)	(1 155 000)
Actuarial (gain)/loss	(121 820)	322 145
Balance 30 June	8 684 000	7 353 000
	8 684 000	**7 353 000**

The Long Service Award is a defined benefit plan, of which the members are made up as follows:

Total eligible		
As at yearend, the following number of employees were eligible for long service bonuses	444	439

Key actuarial assumptions used:

Discount rate	Yield Curve1Yield Curve	1Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	1Difference between nominal and real yield curve
Normal Salary Increase Rate	Equal to CPI+1%	1Equal to CPI+1%
Net Effective Discount Rate	Yield Curve Based	1Yield Curve Based

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: “The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.” We use the nominal and real zero curves as at 29 June 2018 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2018 of 7.36%. The next salary increase was assumed to take place on 01 July 2019.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

5. Employee benefit obligation (continued)

Average Retirement Age

The average retirement age for all active employees was assumed to be 60 years. This assumption implicitly allows for illhealth and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Sensitivity Analysis on the unfunded accruad liability:

	-20% Withdrawal rate	Valuation Assumption	+20% Withdrawal rate
Total Accrued Liability	9 222 000	8 684 000	8 203 000
Current Service Cost	980 000	909 000	847 000
Interest Cost	942 000	885 000	834 000
	11 144 000	**10 478 000**	**9 884 000**

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2018

	-1% Normal salary inflation	Valuation Assumption	+1% Normal salary inflation
Total Accrued Liability	8 141 000	8 684 000	9 286 000
Current Service Cost	849 000	909 000	976 000
Interest Cost	828 000	885 000	948 000
	9 818 000	**10 478 000**	**11 210 000**

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2018

6. Inventories

	2018	2017
Water	66 247	30 404
Game	8 000	8 000
Stationery	46 841	54 848
	121 088	**93 252**

Inventory pledged as security

No inventory was pledged as security.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

7. Other receivables from exchange transactions

Unknown Debit Orders	644 638	671 324
Surplus Receivable Centlec	213 101	2 137 132
Vendors electricity	653 837	382 434
	1 511 576	**3 190 890**

Other receivables from exchange transactions pledged as security

Other recceivables from exchange transactions have not been pledged as security.

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade and other receivables past due but not impaired

Trade and other receivablesfrom exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R 1 511 576 (2017: R 3 190 890) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

3 months past due	1 511 576	3 190 890

8. VAT receivable

VAT	23 623 751	21 163 324

Not all VAT returns were submitted by due date.

The municipality accounts for VAT on the payment basis.

9. Receivables from exchange transactions

Gross balances		
Electricity	9 742 084	9 058 551
Water	88 941 065	73 873 320
Sewerage	56 850 352	44 863 070
Refuse	41 164 469	32 386 631
Housing rental	4 478 767	4 039 808
Sundry	1 946 970	1 856 400
	203 123 707	**166 077 780**
Less: Allowance for impairment		
Electricity	(1 254 168)	(131 566)
Water	(83 607 016)	(66 731 582)
Sewerage	(54 669 736)	(40 584 857)
Refuse	(39 519 035)	(29 311 705)
Housing rental	(4 434 588)	(3 821 541)
Sundry	(601 575)	(1 277 164)
	(184 086 118)	**(141 858 415)**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

9. Receivables from exchange transactions (continued)

Net balance		
Electricity	8 487 916	8 926 985
Water	5 334 049	7 141 738
Sewerage	2 180 616	4 278 213
Refuse	1 645 434	3 074 926
Housing rental	44 179	218 267
Sundry	1 345 395	579 236
	19 037 589	**24 219 365**

Electricity		
Current (0 -30 days)	5 019 237	4 195 404
31 - 60 days	724 697	701 924
61 - 90 days	260 746	227 491
91 - 120 days	3 737 403	3 933 729
Less: Impairment	(1 254 167)	(131 563)
	8 487 916	**8 926 985**

Water		
Current (0 -30 days)	2 642 760	2 904 703
31 - 60 days	2 600 462	2 046 515
61 - 90 days	2 697 616	1 758 933
91 - 120 days	2 191 867	2 098 746
121 - 365 days	78 808 360	65 064 423
Less: Impairment	(83 607 016)	(66 731 582)
	5 334 049	**7 141 738**

Sewerage		
Current (0 -30 days)	1 360 339	1 396 708
31 - 60 days	1 253 050	1 252 590
61 - 90 days	1 713 857	1 187 125
91 - 120 days	1 542 823	1 179 576
121 - 365 days	50 980 284	39 847 071
Less: Impairment	(54 669 737)	(40 584 857)
	2 180 616	**4 278 213**

Refuse		
Current (0 -30 days)	954 747	1 011 302
31 - 60 days	906 986	906 829
61 - 90 days	1 219 289	859 717
91 - 120 days	1 118 594	852 148
121 - 365 days	36 964 853	28 756 635
Less: Impairment	(39 519 035)	(29 311 705)
	1 645 434	**3 074 926**

Housing rental		
Current (0 -30 days)	59 126	54 778
31 - 60 days	58 697	43 597
61 - 90 days	50 246	40 753
91 - 120 days	48 836	41 018
121 - 365 days	4 261 862	3 859 661
Less: Impairment	(4 434 588)	(3 821 540)
	44 179	**218 267**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

9. Receivables from exchange transactions (continued)

Sundry		
Current (0 -30 days)	37 201	-
31 - 60 days	9 777	9 607
61 - 90 days	10 182	9 607
91 - 120 days	9 959	9 607
121 - 365 days	1 879 851	1 827 579
Less: Impairment	(601 575)	(1 277 164)
	1 345 395	**579 236**

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	7 068 771	6 346 485
31 - 60 days	3 650 460	4 901 657
61 - 90 days	4 186 289	4 441 831
91 - 120 days	3 980 303	4 745 254
121 - 365 days	135 894 189	147 474 138
	154 780 012	167 909 365
Less: Allowance for impairment	(151 940 992)	(140 867 850)
	2 839 020	**27 041 515**

Industrial/ commercial		
Current (0 -30 days)	1 787 232	257 436
31 - 60 days	1 217 027	122 813
61 - 90 days	1 090 122	112 610
91 - 120 days	1 887 772	201 699
121 - 365 days	29 586 837	2 840 563
	35 568 990	3 535 121
Less: Allowance for impairment	(32 145 127)	(990 565)
	3 423 863	**2 544 556**

National and provincial government		
Current (0 -30 days)	1 217 407	13 085
31 - 60 days	686 182	11 278
61 - 90 days	675 602	11 288
91 - 120 days	2 781 484	11 492
121 - 365 days	7 414 030	483 008
	12 774 705	**530 151**

Total		
Current (0 -30 days)	10 073 410	9 572 502
31 - 60 days	5 553 669	4 961 063
61 - 90 days	5 952 014	4 083 629
91 - 120 days	8 649 560	8 114 811
121 - 365 days	172 895 054	139 345 775
	203 123 707	166 077 780
Less: Allowance for impairment	(184 086 118)	(141 858 415)
	19 037 589	**24 219 365**

Less: Allowance for impairment		
90 - 365 days	(184 086 118)	(141 858 415)

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

9. Receivables from exchange transactions (continued)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(141 858 415)	(125 801 660)
Contributions to allowance	(48 896 379)	(41 620 975)
Debt impairment written off against allowance	6 668 676	25 564 220
	(184 086 118)	**(141 858 415)**

Consumer debtors pledged as security

Consumer receivables from exchange transactions have not been pledged as security.

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

None of the financial assets that are fully performing have been renegotiated in the last year. It is council's policy to eaise interest charges on accounts past 30 days from the payment date and such charges are raised at 2% above the prime lending rate as published by the South African Reserve Bank from time to time.

Consumer debtors impaired

As of 30 June 2018, consumer debtors of R 203 123 707 (2017: R 166 077 780) were impaired and provided for.

The amount of the provision was R 184 086 118 as of 30 June 2018 (2017: R 141 858 415).

10. Receivebles from non-exchange transactions

	2018	2017
Gross balances		
Property Rates	28 532 474	23 290 659
	28 532 474	**23 290 659**
Less: Allowance for impairment		
Property Rates	(25 432 190)	(20 415 343)
	(25 432 190)	**(20 415 343)**
Net balance		
Property Rates	3 100 284	2 875 316

Property Rates		
Current (0 -30 days)	1 179 484	1 256 870
31 - 60 days	937 871	1 201 570
61 - 90 days	816 289	1 205 687
91 - 120 days	729 839	3 625 754
121 - 365 days	24 868 991	16 000 778
Less: Impairment	(25 432 190)	(20 415 343)
	3 100 284	**2 875 316**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

10. Receivebles from non-exchange transactions (continued)

Summary of receivables from non-exchange transactions by customer classification

Consumers		
Current (0 -30 days)	506 468	1 256 870
31 - 60 days	421 831	1 201 578
61 - 90 days	370 640	1 205 687
91 - 120 days	327 955	1 199 754
121 - 365 days	10 041 730	16 618 556
	11 668 624	21 482 445
Less: Allowance for impairment	(10 846 118)	(19 447 505)
	822 506	**2 034 940**

Industrial/ commercial		
Current (0 -30 days)	432 048	1 171 333
31 - 60 days	359 739	-
61 - 90 days	348 823	-
91 - 120 days	308 758	-
121 - 365 days	13 495 083	-
	14 944 451	1 171 333
Less: Allowance for impairment	(14 586 451)	(458 797)
	358 000	**712 536**

National and provincial government		
Current (0 -30 days)	240 969	290 000
31 - 60 days	156 301	189 000
61 - 90 days	96 826	168 000
91 - 120 days	93 126	242 600
121 - 365 days	1 332 177	358 240
	1 919 399	**1 247 840**

Total		
Current (0 -30 days)	1 179 484	1 256 870
31 - 60 days	937 871	1 201 570
61 - 90 days	816 289	1 205 687
91 - 120 days	729 839	3 625 754
121 - 365 days	24 868 990	16 000 778
	28 532 473	23 290 659
Less: Allowance for impairment	(25 432 190)	(20 415 343)
	3 100 283	**2 875 316**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(20 415 343)	(15 207 530)
Contributions to allowance	(5 906 993)	(5 207 813)
Debt impairment written off against allowance	890 146	-
	(25 432 190)	**(20 415 343)**

Receivables from non-ecxhange transactions pledged as security

Consumer receivables from non-exchange transactions have not been pledged as security.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

10. Receivebles from non-exchange transactions (continued)

Credit quality of receivables from non-exchange transactions

The credit quality of consumer debtors from non-exchange transactionsthat are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

None of the financial assets that are fully performing have been renegotiated in the last year. It is council's policy to eaise interest charges on accounts past 30 days from the payment date and such charges are raised at 2% above the prime lending rate as published by the South African Reserve Bank from time to time.

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	25 436	20 000
Bank balances	375 909	1 103 583
Short-term deposits	1 238 942	937 163
	1 640 287	**2 060 746**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Cash and cash equivalents pledged as collateral

Cash and cash equivalents have not been pledged as collateral.

The municipality had the following bank accounts

Account description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
First National Bank - Business Cheque Account	174 498	936 972	83 756	174 498	892 325	62 974
Standard Bank - Business Cheque Account	103 840	98 936	60 779	103 840	98 936	60 779
ABSA - Business Cheque Account	8 794	10 035	10 130	8 794	10 035	10 130
Post Bank - Current Account	88 777	102 288	235 254	88 777	102 288	235 254
Total	**375 909**	**1 148 231**	**389 919**	**375 909**	**1 103 584**	**369 137**

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	8 842 685	578 435
Water Services Operating Subsidy Grant	3 492 847	3 492 847
Water Services Infrastructure Grant	14 515 297	13 108 185
Regional Bulk Infrastructure Grant	498 361	-
	27 349 190	**17 179 467**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

12. Unspent conditional grants and receipts (continued)

Movement during the year

	2018	2017
Balance at the beginning of the year	17 179 467	5 863 209
Additions during the year	49 972 052	46 860 637
Income recognition during the year	(39 802 329)	(35 544 379)
	27 349 190	**17 179 467**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 24 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

13. Other financial liabilities

	2018	2017
At amortised cost		
Long-term loan	179 928	179 928
The long-term loan at amortised cost is calculated at 5% interest rate, with a maturity date of 31 August 2027. Arrear payments interest is calculated at 7% accrued monthly.		
Mangaung 3	46 598	54 364
Road and public area lighting projects		
Mangaung 4	1	1
Replacement of domestic/commercial meters		
Mangaung 5	178 754	223 442
Upgrading low voltage network		
Mangaung 6	76 520	91 824
Kopanong ext. upgrade and improvement of low voltage network		
Mangaung 7	90 501	108 602
Kopanong electrification		
Mangaung 8	46 535	58 169
Kopanong high mast lighting		
Mangaung 9	120 081	144 098
Kopanong high mast lights		
Mangaung 12	350 514	408 933
Improvment of low voltage network		
	1 089 432	**1 269 361**
Total other financial liabilities	**1 089 432**	**1 269 361**
Non-current liabilities		
At amortised cost	909 504	1 089 433
Current liabilities		
At amortised cost	179 928	179 928

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

14. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Interest cost	Change in discount factor	Change in provision for rehabilitation costs	Total
Environmental rehabilitation	9 409 447	965 409	399 681	688 267	11 462 804

Reconciliation of provisions - 2017

	Opening Balance	Interest cost	Total
Environmental rehabilitation	9 079 182	330 265	9 409 447

	2018	2017
Non-current liabilities	10 362 375	8 444 038
Current liabilities	1 100 429	965 409
	11 462 804	**9 409 447**

Landfill site disclosure

Jagersfontein
The landfill sites of Jagersfontein are not licenced. The record of decision was not approved due to high water ground table. The municipality is busy identifying an alternative site and to change the current landfill sites to a transfer station that does not need to be licenced.

Fauresmith
The landfill sites of Fauresmith are not licenced. The municipality is busy constructing a new transfer station which does not require licencing. Once the project is completed, the old site will be closed and rehabilitated.

Edenburg
The landfill sites of Edenburg are not licenced. The transfer station is completed and currently completing the landfill site in Reddersburg where the waste will be transfered.

Environmental rehabilitation provision

The rehabilitation requirement as per the minimum requirement for wase disposal by landfill (DWAF, 1998) creates an obligation for the municipality for future expenditure which is provided for.

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites to a condition whereby it complies to the permit requirements issued in terms of the Mineral and Petroleum Resources Development Act, (Act 28 of 2002). The provision was determined by an independent expert for the rehabilitation cost in 2018 and then approximated the expected future cash flows using reasonable estimation techniques. The discount rate used for all the landfill sites is based on a CPA rale that matures as close as possible to the future date of the rehabilitation, the rate is 3,35% (2017: 4.02%) for the circumstances of the municipality.

Landfill sites consists of:	**Useful life 2018**	**Useful life 2017**
Bethulie	20	21
Redersburg	25	21
Trompsburg	34	21
Springfontein	23	21
Gariepdam	3	21
Jagersfontein	9	21
Philippolis	10	21
Edenburg	19	21
Fauresmith	5	21

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

14. Provisions (continued)

The final restoration of landfill sites is expected to be in the year listed above, being the estimated useful lives of landfill sites. No uncertainties were listed in the engineer's report. The certainty and the timing of the outflow of these liabilities are uncertain and the amounts disclosed are the possible outflow amounts.

15. Payables from exchange transactions

Trade payables	244 205 169	201 889 375
Payments received in advanced	9 226 816	5 798 087
Unallocated deposits	1 302 363	3 008 101
Salary Control	69 552 872	59 130 474
Accrued leave pay	8 541 276	6 784 322
Accrued bonus	2 472 151	2 385 345
Deposits received	14 665	14 665
Deferred revenue	467 777	549 709
Centlec payable	18 100 406	16 115 196
Sundry payables	147 377	-
Retention liability	1 488 471	-
	355 519 343	**295 675 274**

16. VAT payable

Tax refunds payables	28 264 243	19 476 006

17. Consumer deposits

Water and electricity	4 042 122	4 008 370

18. Revenue

Sale of goods	724 680	376 463
Fees earned	5 037	3 966
Service charges	100 848 179	105 119 160
Rental of facilities and equipment	1 104 367	1 169 872
Interest received (trading)	10 461 404	11 949 563
Insurance claims	3 200 931	-
Sundry income	985 158	1 160 222
Interest received - investment	211 996	1 041 039
Property rates	18 221 984	16 265 881
Government grants & subsidies	113 210 549	107 169 693
Fines, Penalties and Forfeits	-	34 048
	248 974 285	**244 289 907**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Sale of goods	724 680	376 463
Service charges	100 848 179	105 119 160
Fees earned	5 037	3 966
Rental of facilities and equipment	1 104 367	1 169 872
Interest received (trading)	10 461 404	11 949 563
Insurance claims	3 200 931	-
Sundry income	985 158	1 160 222
Interest received - investment	211 996	1 041 039
	117 541 752	**120 820 285**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

18. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	18 221 984	16 265 881
Transfer revenue		
Government grants & subsidies	113 210 549	107 169 693
Fines, Penalties and Forfeits	-	34 048
	131 432 533	**123 469 622**

19. Service charges

Sale of electricity	59 228 112	58 977 652
Sale of water	19 384 407	24 659 665
Sewerage and sanitation charges	13 588 227	12 334 262
Refuse removal	9 859 537	9 147 581
Revenue Forgone	(1 212 104)	-
	100 848 179	**105 119 160**

20. Rental of facilities and equipment

Premises		
Premises	883 493	921 774
Venue hire	30 736	73 181
	914 229	**994 955**
Facilities and equipment		
Rental of facilities	127 225	113 468
Rental of equipment	62 913	61 449
	190 138	**174 917**
	1 104 367	**1 169 872**

21. Other revenue

Insurance claims	3 200 931	-
Sundry income	985 158	1 160 222
	4 186 089	**1 160 222**

22. Investment revenue

Interest revenue		
Bank	211 996	1 041 039

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

23. Property rates

Rates received

Residential	10 830 397	13 594 192
Commercial	2 604 786	2 326 490
State	11 943 404	15 835 243
Small holdings and farms	10 899 919	9 866 202
Less: Income forgone	(18 056 522)	(25 356 246)
	18 221 984	**16 265 881**

Valuations

Agricultural farms and small holdings	4 643 452 570	4 190 708 047
Business	162 675 550	162 419 550
Churches	47 695 000	47 745 000
Government	190 969 100	189 201 100
Hospital	54 800 000	54 800 000
Municipal	56 579 100	55 382 100
Residential	1 109 179 625	1 101 875 875
Schools	85 614 000	85 614 000
	6 350 964 945	**5 887 745 672**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2019.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

24. Government grants and subsidies

Operating grants		
Equitable share	67 330 000	71 625 313
Local Government Financial Management Grant (FMG)	1 700 000	1 625 000
Department of Local Government Corporate Governance and Traditional Affairs - Financial Assistance	1 500 000	-
Expanded Public Works Programme (EPWP)	1 000 000	1 155 000
FS: Provincial Treasury Financial Assistance	4 444 217	-
Provincial Treasury Financial Assistance	440 691	-
	76 414 908	**74 405 313**
Capital grants		
Municipal Infrastructure Grant	21 768 753	20 310 862
Water Services Infrastructure Grant	10 526 888	7 453 518
Intergrated National Electrification Programme (INEP)	4 500 000	5 000 000
	36 795 641	**32 764 380**
	113 210 549	**107 169 693**

Equitable Share

Received in the current year	60 264 000	68 214 022
Transfer from Conditional Grant (Roll-over not approved)	7 066 000	148 978
Conditions met - transferred to revenue	(67 330 000)	(68 363 000)
	-	**-**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant

Balance unspent at beginning of year	578 435	1 060 978
Current-year receipts	30 033 000	19 977 000
Conditions met - transferred to revenue	(21 768 750)	(20 310 565)
Roll over not approved	-	(148 978)
	8 842 685	**578 435**

Conditions still to be met - remain liabilities (see note 12).

Water Services Operating Subsidy Grant

Balance unspent at beginning of year	3 492 847	3 492 847

Conditions still to be met - remain liabilities (see note 12).

Water Services Infrastructure Grant

Balance unspent at beginning of year	13 108 185	-
Current-year receipts	19 000 000	20 562 000
Conditions met - transferred to revenue	(10 526 888)	(7 453 815)
Funds surrendered/withheld against the equitable share	(7 066 000)	-
	14 515 297	**13 108 185**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

24. Government grants and subsidies (continued)

Intergrated National Electrification Programme

Current-year receipts	4 500 000	5 000 000
Conditions met - transferred to revenue	(4 500 000)	(5 000 000)
	-	-

Regional Bulk Infrastructure Grant

Current-year receipts	939 052	-
Conditions met - transferred to revenue	(440 691)	-
	498 361	-

Conditions still to be met - remain liabilities (see note 12).

Expanded Public Works Programme

Current-year receipts	1 000 000	1 155 000
Conditions met - transferred to revenue	(1 000 000)	(1 155 000)
	-	-

Local Government Financial Management Grant (FMG)

Current-year receipts	1 700 000	1 625 000
Conditions met - transferred to revenue	(1 700 000)	(1 625 000)
	-	-

Department of Local Government Corporate Governance and Traditional Affairs - Financial Assistance

Current-year receipts	1 500 000	-
Conditions met - transferred to revenue	(1 500 000)	-
	-	-

FS: Provincial Treasury Financial Assistance

Current-year receipts	4 444 217	-
Conditions met - transferred to revenue	(4 444 217)	-
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

25. Employee related costs

Basic	69 582 115	68 335 912
Bonus	6 623 972	5 959 650
Car allowance	4 474 729	4 350 364
Cellphone allowance	646	1 058 798
Holiday Bonus	86 806	209 556
Housing benefits and allowances	224 551	212 347
Industrial council contributions	43 653	78 811
Leave pay provision charge	3 262 613	-
Medical aid contributions	6 151 161	6 099 979
Other allowance	1 813 896	1 229 733
Overtime payments	2 050 204	2 039 439
Pension fund contributions	11 996 055	11 666 036
SDL	898 797	865 861
UIF	665 209	634 250
	107 874 407	**102 740 736**

Remuneration of the former Municipal Manager

Annual Remuneration	86 611	861 125
Bonuses	5 968	180 000
Contributions to UIF, Medical and Pension Funds	22 634	71 375
Other	333 376	226 211
	448 589	**1 338 711**

The former municipal manger's contract was terminated in July 2017.

Remuneration of the Municipal Manager

Annual Remuneration	987 987	-
Bonuses	82 332	-
Contributions to UIF, Medical and Pension Funds	12 859	-
Other	66 193	-
	1 149 371	**-**

The municipal manager was appointed in August 2017.

Contract terminated in June 2017.

Remuneration of the Chief Finance Officer

Annual Remuneration	832 702	561 276
Bonuses	200 203	88 200
Contributions to UIF, Medical and Pension Funds	175 120	313 681
Other	140 045	124 530
	1 348 070	**1 087 687**

Remuneration of the Former Acting Head of Techincal Service

Annual Remuneration	279 305	715 998
Bonuses	19 942	120 000
Contributions to UIF, Medical and Pension Funds	55 905	59 408
Other	316 295	150 017
	671 447	**1 045 423**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

25. Employee related costs (continued)

The Acting head of Technical Services Acted from begining of the financial year until October 2017.

Remuneration of the Former Acting Head of Techincal Service

Acting allowance	29 962	-

The former acting head of technical services acted for periods: November 2017 upto April 2018.

Remuneration of the Acting Head of Techincal Service

Acting allowance	77 936	-

The acting head of technical services acted for periods: May 2018 upto June 2018.

Remuneration of the Former Head of Community Service

Annual Remuneration	408 643	579 019
Car Allowance	134 337	176 000
Bonuses	34 054	134 230
Contributions to UIF, Medical and Pension Funds	126 265	157 002
Other	136 113	-
	839 412	**1 046 251**

The former acting head of community services acted in the current financial year from periods: July 2017 upto January 2018

Remuneration of the Head of Community Service

Acting allowance	109 090	-

The acting head of community services acted in the current financial year from periods: February 2018 upto June 2018

Remuneration of the Head of Corporate Service

Annual Remuneration	767 736	755 090
Car Allowance	24 000	72 000
Bonuses	63 978	62 506
Contributions to UIF, Medical and Pension Funds	64 962	157 651
Other	276 484	-
	1 197 160	**1 047 247**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

26. Remuneration of councillors

Councillors	5 255 981	3 527 609
	5 255 981	**3 527 609**

Remuneration of the Mayor

Salary	457 508	447 864
Travel, Cellphone,Over-sight Allowance	234 774	200 241
Backpay	29 176	-
Contributions to UIF, medical ain & pension fund	215 341	88 835
	936 799	**736 940**

Remuneration of the Speaker

Salary	489 010	497 428
Travel, Cellphone,Over-sight Allowance	34 620	40 891
Contributions to UIF, medical ain & pension fund	194 675	93 058
	718 305	**631 377**

Mayoral Commitee Members

Annual remuneration	483 216	158 109
Travel, Cellphone,Over-sight Allowance	253 724	77 650
Backpay	21 440	-
Contributions to UIF, medical ain & pension fund	74 964	17 280
	833 344	**253 039**

Councillors

Annual remuneration	2 327 103	2 517 277
Travel, Cellphone,Over-sight Allowance	774 640	483 402
Backpay	201 731	-
Contributions to UIF, medical ain & pension fund	116 033	107 887
	3 419 507	**3 108 566**

In-kind benefits

The Executive Mayor is fulll-time and is provided with an office and secretarial support at the cost of the Council.

27. Administrative expenditure

Administration and management fees	1 311 429	2 200 654

28. Depreciation and amortisation

Property, plant and equipment	42 958 191	42 366 225

29. Finance costs

Interest paid on overdue accounts	26 817 179	22 827 104
Other financial liabilities	126 936	144 929
Provisions	965 409	330 265
	27 909 524	**23 302 298**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

30. Debt impairment

Debt impairment	54 803 372	41 620 974

31. Bulk purchases

Electricity	45 303 523	46 682 663
Water	31 289 134	39 670 086
	76 592 657	**86 352 749**

32. General expenses

Accounting fees	243 548	106 400
Advertising	126 268	125 447
Auditors remuneration	4 450 554	3 178 878
Bank charges	650 592	342 160
Cleaning	14 676	37 295
Commission paid	67 627	489 541
Community development and training	-	5 300
Conferences and seminars	425 041	336 421
Consulting and professional fees	696 470	1 648 829
Departmental electricity	3 669 618	4 916 164
Entertainment	106 559	77 442
Fuel and oil	1 036 242	1 332 741
Insurance	741 581	429 410
Other expenses	117 254	255 666
Performance management system	-	3 346
Postage and courier	4 275	2 547
Printing and stationery	995 868	771 100
Protective clothing	342 878	52 155
Royalties and license fees	99 490	142 962
Software expenses	151 270	986 500
Subscriptions and membership fees	486 749	515 274
Subsistence and travelling	1 404 621	1 320 023
Telephone and fax	56 722	1 086 044
Training	67 230	126 307
Valuation cost and unbundling of assets	374 319	319 280
Ward committees	1 124 413	225 200
	17 453 865	**18 832 432**

33. Auditors' remuneration

Fees	4 450 554	3 178 878

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

34. Cash generated from operations

Deficit	(92 454 412)	(88 326 746)
Adjustments for:		
Depreciation and amortisation	42 958 191	42 366 225
Gain on sale of assets and liabilities	-	3 066 782
Impairment deficit	1 636 651	132 843
Debt impairment	54 803 372	41 620 974
Movements in retirement benefit assets and liabilities	524 000	142 797
Movements in provisions	2 053 357	330 265
Changes in working capital:		
Inventories	(27 836)	(13 394)
Other receivables from exchange transactions	1 679 314	(1 473 704)
Consumer receivables from exchange	(49 621 596)	(55 422 943)
Consumer receivables from non-exchange	(224 968)	3 453 043
Payables from exchange transactions	59 844 060	80 189 046
VAT	6 327 810	(5 487 756)
Unspent conditional grants and receipts	10 169 723	13 462 565
Consumer deposits	33 752	34 076
	37 701 418	**34 074 073**

Notes to the Annual Financial Statements

35. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At amortised cost	Total
Other receivables from exchange transactions	1 511 576	1 511 576
Receivables from non-exchange transactions	3 100 284	3 100 284
Receivables from exchange transactions	19 037 589	19 037 589
Cash and cash equivalents	1 640 287	1 640 287
	25 289 736	**25 289 736**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	1 089 432	1 089 432
Payables from exchange transactions	355 519 343	355 519 343
	356 608 775	**356 608 775**

2017

Financial assets

	At amortised cost	Total
Other receivables from exchange transactions	3 190 890	3 190 890
Receivables from non-exchange transactions	2 875 316	2 875 316
Receivables from exchange transactions	24 219 365	24 219 365
Cash and cash equivalents	2 060 746	2 060 746
	32 346 317	**32 346 317**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	1 269 361	1 269 361
Trade and other payables from exchange transactions	295 675 274	295 675 274
	296 944 635	**296 944 635**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

36. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	34 744 357	41 240 249
Total capital commitments		
Already contracted for but not provided for	34 744 357	37 448 337

Total commitments

Total commitments		
Authorised capital expenditure	34 744 357	37 448 337

This committed expenditure relates to plant and equipment and will be financed by the municipal infrastructure grant and funding allocations from the district municipality.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	-	256 834

Kopanong Local Municipality entered into a lease agreement with Alenti 220 (Pty) Ltd for rental of printers. Operating lease agreement is for a period of 2 years. Rent payment on Straight Line basis. Rent escalates by 15% per year, operating lease period ends 30 May 2018. There is no renewable option on the lease nor buying option.

The municipality did not enter into a new agreement at termination of the rental agreement.

37. Contingencies

Unlicensed Landfill sites

The municipality is operating unregistered landfill sites, which could incur potential fines and penalties, the value and likelihood cannot be estimated reliably.

The municipality managed three landfill site without the required licenses in contravention of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008). In terms of section 68(1) of the National Environmental Management: Waste Act, 2008 a fine of R10 million or imprisonment for a period not exceeding 10 years for any person convicted of the offence could be imposed.

Furthermore, the municipality may be subject to legal action by other institutions or members of the public since unauthorised landfill sites are operated that could have an environmental, health or safety risk to the community. There is currently no possibility of reimbursement.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

37. Contingencies (continued)

Contingent Liabilities

	2018	2017
Litigations		
Haya vs Kopanong Local Municipality	1 030 907	-
Mrs. Haya was previously dismissed by the Municipality in December 2009 and he challenged his dismissed successfully and the Municipality was ordered by court to back pay him his salary due to him as a result of the dismissal that was found to be unfair. There was a further dispute regarding the calculations of the Capital Amount due to him. The matter is pending		
Mantshiyane vs Kopanong Local Municipality	1 170 000	-
Mr. Mantshiyane was previously dismissed by the Municipality in June 2009 and he challenged his dismissed successfully and the Municipality was ordered by court to back pay him his salary due to him as a result of the dismissal that was found to be unfair. There was a further dispute regarding the calculations of the Capital Amount due to him.		
Auditor-General vs Kopanong Local Municipality	626 000	-
The auditor general has issued a demand payment on outstanding invoices. The municipality is negotiating a payment plan.		
Jager Technologies vs Kopanong Local Municipality	450 000	-
Mashalaba Consultants than proceeded to instruct their Attorney's to proceed to recover the full amount due and payable to them.		
Municipal Workers' Pension Fund vs Kopanong Local Municipality	600 000	-
Mashalaba Consultants vs Kopanong Local Municipality	273 600	-
Samwu National Provident Fund	-	50 000
Still awaiting whether the matter was settled		
Jorian Construction	-	120 000
Jorian Construction brought an application to compel the municipality to provide reasons for awarding the tender to the successful bidder of the other ventures of a joint venture.		
Aurecon SA	-	320 000
TS Construction	-	60 000
TS Construction issued summons against the municipality for services rendered & Municipality for services rendered.		
TS Mantshiyane	-	120 000
This is an appeal by the Municipality claiming that the extra 2 years in his employment contract be declared invalid		
MY.Makhaba vs Lebo Moletsane KLM	-	68 400
HC Mothupi and SAMWU HC Mothupi	-	67 000
SALA Pension Fund	-	40 000
Sala pension fund claim against the municipality to recover arrear pension contribution. Mosebi Jack Ramohamane - Civil action against the municipality.		
Nkelina Projects	-	580 000
Civil action against the municipality claiming for services rendered.		
Mosebi Jack Ramohamane	-	80 000
Reid and others	-	100 000
Litigation is in the process against the municipality relating to a dispute and attribution with former employees who alleges that the municipality unlawfully dismissed. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely. However, it cannot be determined at this time when the disputes will be resolved or exactly how much the claims and damages the municipality will require to make as it is not practical to do so. There is currently no possibility of reimbursement.		
	4 150 507	**1 605 400**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

38. Related parties

Relationships

Accounting Officer	Refer to accounting officers' report
Councillors	Refer to note 26
Key management	Refer to note 25

39. Prior period errors

The municipality corrected the following prior period errors retrospectively and reatated comparative amounts in terms of GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors:

39.1 Mistatements of Payables from exchange transactions - Payment in advance

During the year under review, we noted that payables from exchange transactions were overstated due to an incorrect balance in payment in advance that was as a result incorrect write-off of receivables. The comparative statements for 2016/2017 financial year have been restated. The effect of the correction of error is summarised below.

	2018	2017
Statement of financial position		
Increase in accumulated surplus	-	(2 412 943)
Decrease in payables from exchange transactions - payment in advance	-	4 153 787
Statement of financial performance		
Increase in revenue from exchange transactions - service charges	-	(1 740 844)

39.2 Prior period error - Infrastructure assets misstated in the FAR

During the period under review it was noted that the impairment loss was overstated. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

	2018	2017
Statement of financial postion:		
Decrease in PPE infrastructure Accumulated Depreciation - Impairment	-	3 911
Statement of Financial performance:		
Decrease in depreciation expense	-	(3 911)

39.3 Prior period error - Intangible assets misstated in the FAR

During the period under review it was noted that the impairment of intangible assets was ommitted in the year ended 30 June 2017. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

	2018	2017
Statement of financial postion:		
Increase in PPE other assets Accumulated Depreciation (Impairment)	-	(13 506)
Statement of Financial performance:		
Increase in impairment expense	-	13 506

39.4 Prior period error - Understatement of Infrastructure Cost Additions

During the period under review it was noted that the prior year's other assets were misstated at 30 June 2016. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

39. Prior period errors (continued)

Statement of financial postion:		
Decrease in PPE other assets Accumulated Depreciation - Opening balance	-	11 432
Increase in Accumulated surplus	-	(11 432)
Decrease in PPE other assets Acc Depr - Depreciation	-	70 289
	-	**70 289**

Statement of Financial performance:		
Decrease in Depreciation and amortisation	-	(70 289)

39.5 Prior period error - Understatement of Centlec payable

During the period under review it was noted that the consolidation of the electricity function administered by Centlec (SoC) Ltd was not correctly incorporated into the accounting records of the municipality at 30 June 2016. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Decrease in Accumulated surplus	-	5 102 610
Increase in Consumer deposits	-	(878 897)
Increase in Other receivables from exchange	-	2 490 669
Increase in Payables from exchange transactions	-	(8 386 408)
Increase in Receivables from exchange transactions	-	2 525 674
Increase in Vat payable	-	(6 071 092)
	-	**(5 217 444)**

Statement of financial performance:		
Decrease in Debt impairment	-	(857 858)
Increase in Finance charges	-	150 337
Increase in General expenses	-	3 964 882
Decrease in Revenue from exchange transactions	-	1 960 083
	-	**5 217 444**

39.6 Prior period error - Correction of unsupported account balances

During the period under review it was noted that certain general ledger accounts could not be supported with a detailed working paper or reconciliation at 30 June 2016. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Decrease in Accumulated surplus	-	3 620 590
Decrease in Other receivables from exchange	-	(3 482 341)
Decrease in Receivables from exchange transactions	-	(138 249)
	-	**-**

39.7 Prior period error - Correction of Environmental rehabilitation provision

During the period under review it was noted that the environmental rehabilitation provision was misstated at 30 June 2016. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Increase in Accumulated surplus	-	(78 359)
Decrease in Provisions	-	78 359
	-	**-**

Notes to the Annual Financial Statements

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39. Prior period errors (continued)

39.8 Prior period error - Correction of Receivables from exchange transactions overstated

During the period under review it was noted that receivables from exchange transactions were overstated by amounts which had been included in the general ledger and not adjusted to the debtors subledger at 30 June 2016. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Decrease in Accumulated surplus	-	4 350 576
Decrease in Receivables from exchange transactions	-	(4 350 576)
	-	-

39.9 Prior period error - Misstatement of vat receivable

During the period under review it was noted that the Vat control account was misstated due to errors made by SARS at 30 June 2016. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Increase in Accumulated surplus	-	(2 031 243)
Increase in Vat Receivable	-	2 031 243
	-	-

39.10 Prior period error - Misstatement of cash and cash equivalents

During the period under review it was noted that the cashbook and general ledger vote for the main bank account differed at 30 June 2016. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Decrease in cash and cash equivalents	-	(1 358)
Statement of financial performance:		
Increase in General Expenses	-	1 358

39.11 Prior period error - Misstatement of infrastructure assets

During the period under review it was noted infrastructure assets was misstated at 30 June 2016 at 30 June 2016. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial postion:		
Increase in Property, plant and equipment	-	5 694 220
Increase in Accumulated surplus	-	(5 694 220)
	-	-

Notes to the Annual Financial Statements

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40. Comparative figures

During the period under review, we identified account balances that were misclassified in the annual financial statements, therefore certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Statement of financial position		
Increase in VAT receivable	-	3 262 313
Decrease in Property pland and equipment	-	(13 796)
Increase in Intangible assets	-	13 796
Increase in Provisions (Current liabilities)	-	(965 409)
Decrease in Provisions (Non-current liabilities)	-	965 409
Increase in Employee benefit obligations (Current liability)	-	(1 058 000)
Decrease in Employee benefit obligations (Non-current liability)	-	1 058 000
	-	**3 262 313**

Statement of financial performance		
Increase in Revenue from non-exchange transactions - government grants and subsidies	-	(3 262 313)
Increase in Revenue from exchange transactions - Rental of facilities and equipments	-	(805 413)
Decrease in Revenue from exchange transactions - Rental income	-	805 413
Decrease in Revenue from exchange transactions - Interest received	-	1 041 039
Increase in Revenue from exchange transactions - Interest received - Investments	-	(1 041 039)
Decrease in Interest paid	-	(22 827 103)
Increase in Finance costs	-	22 827 103
Decrease in Depreciation and amortisation	-	(119 336)
Increase in Impairment loss	-	119 336
Increase in General expense - telephone and fax	-	108 735
Increase in Revenue from exchange transactions - Sundry income	-	(108 735)
Increase in General expenses	-	3 456 912
Decrease in Repairs and maintenance	-	(3 456 912)
Increase in Revenue from non-exchange transactions - Property rates	-	(131 721)
Increase in Revenue from exchange transactions - Sale of goods	-	(2 439)
Decrease in revenue from exchange transactions - Service charges	-	85 680
Decrease in Revenue from exchange transactions - Sundry income	-	48 480
	-	**(3 262 313)**

41. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

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41. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	**2018**	**2017**
Other receivables from exchange transactions	1 511 576	3 190 890
Receivables from non-exchange transactions	3 100 284	2 875 316
Receivables from exchange transactions	19 037 589	24 219 365
Cash and cash equivalents	1 640 287	2 060 746

42. Going concern

We draw attention to the fact that at 30 June 2018, the municipality incurred a defict of R92 454 412 (2017: R88 326 746) for the financial year.

We further draw attention to the fact that at 30 June 2018 a material uncertainity exists regarding the ability of the municipality to continue as a going concern. These factors are listed below:

- The provisions for rehabilitation of landfill sites and employee benefit provisions are not cash backed.
- The municipality experienced cash flow problems during the year, which resilted in major creditors not being paid timeously.
- Receivables from exchange and non-exchange transactions are almost fully impaired.
- The electriicty distribution losses have increased to 17% from (2017: 4%).
- The water distribution losses have increased to 50% from (2017: 46%).
- The municipalitiy's current liabilities exceeds it's current assets by R369 100 680 (2017: R284 939 561), this is an indication that the mnicipality's current ratio is below the required norm of 1.5 - 2.
- The municipality incurred a net deficit for the year under review of R92 454 412 (2016: R88 326 174746), the major contributors to this change is increases in impairments, finance costs, contracted services and a decrease in revenue from exchange transactions.

Even though the above uncertainties exist regarding the municipality's ability to continue as a going concern, the annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities,contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

Furthermore the municipality has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the municipality will be implementing a system to enhance the revenue collection and cash flow by improving on the debt recoverability.

Notes to the Annual Financial Statements

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42. Going concern (continued)

The municipality still has the ability to levy rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocation in terms of the Division of Revenue Act.

43. Events after the reporting date

The management is not aware of any material matter or circumstances arising since the end of the financial year to the date of this report in respect of matters which would require adjustments to or disclosures in the financial statements.

44. Unauthorised expenditure

Opening balance	402 718 719	337 856 369
Current year	48 520 707	64 862 350
	451 239 426	**402 718 719**

No criminal or disciplinary steps were taken in relation to the above expenditure. Liabilities have not yet been identified.

Council committee (section 32) is in place to investigate and report back to council before the amount can be recovered or condoned.

Incidences of unauthorised expenditure		
Employee related services	2 581 775	3 097 852
Impairment	32 159 885	26 626 966
Interest paid	7 170 949	21 179 746
Bulk purchases	2 550 687	13 957 786
Councillors remuneration	672 512	-
Repairs and maintenance	3 384 898	-
	48 520 706	**64 862 350**

45. Fruitless and wasteful expenditure

Opening balance	95 048 963	70 863 115
Current year	26 046 440	24 185 848
	121 095 403	**95 048 963**

Details of Fruitless and Wasteful Expenditure- current year		
Fines and penalties	1 354 950	50 500
Interest on late accounts	24 631 925	23 535 348
Legal costs	59 565	600 000
	26 046 440	**24 185 848**

46. Irregular expenditure

Opening balance	269 593 658	239 036 609
Add: Irregular Expenditure - current year	22 819 770	32 619 153
Less: Amounts condoned	(48 058 751)	-
	244 354 677	**271 655 762**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

46. Irregular expenditure (continued)

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Supply Chain processes were not followed	Section 32 investigations not yet completed	2 004 572
Evaluation functionality criteria differ from bid specifications	Section 32 investigations not yet completed	1 325 027
Unspent conditional grants not supported by bank balance	Section 32 investigations not yet completed	16 283 409
Tax matters not in order at the time of award	Section 32 investigations not yet completed	3 206 762
		22 819 770

Details of irregular expenditure – prior year

	Disciplinary steps taken/criminal proceedings	
Bid adjudication committee was not composed of a minimum of 4 directors in accordance to SCM Regulation 29	Section 32 investigations not yet completed	866 897
Supply Chain processes were not followed in full	Section 32 investigations not yet completed	3 129 074
Evaluation functionality criteria differ from bid specifications	Section 32 investigations not yet completed	11 443 715
Unspent conditional grants not supported by bank balance	Section 32 investigations not yet completed	17 179 467
		32 619 153

Irregular expenditure condoned by Council in 2017/2018

Contract previously disclosed as irregular expenditure - project not continuing	7 374 611
Bid adjudication committee not properly constituted in terms of SCM regulation 29	40 684 140
	48 058 751

Irregular expenditure is still under investigation by MPAC to determine the actual irregular expenditure amount.

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2018	2017
Opening balance	972 484	1 420 642
Current year subscription / fee	1 143 500	972 484
Amount paid - previous years	(487 930)	(1 420 642)
	1 628 054	**972 484**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

47. Additional disclosure in terms of Municipal Finance Management Act (continued)

Material distribution losses

	Water distribution losses	
Units bought	3 019 537	4 354 269
Units sold	(1 339 695)	(2 203 546)
Free basic service (Only Indigents)	(161 946)	(163 524)
Units lost in distribution	1 517 896	1 987 199
Units lost in distribution as percentage	50,27%	46%
Unit cost	9,12	6,80
Amount distribution lossses	**13 843 212**	**13 512 953**

	Electricity distribution losses	
Purchased units	43 106 149	44 611 499
Prepaid sales	(22 081 454)	(21 504 459)
Venus sales	(13 517 573)	(15 570 632)
kWh losses	7 507 122	1 774 171
Units lost in distribution as percentage	17%	4%
Avg C/kWh	1,05	1,07
	7 882 478	**8 278 827**

Audit fees

Opening balance	3 614 466	3 282 373
Current year subscription / fee	4 944 041	3 178 877
Amount paid - current year	(4 134 877)	-
Amount paid - previous years	(3 614 466)	(2 846 784)
	809 164	**3 614 466**

PAYE and UIF

Opening balance	14 479 133	5 232 537
Current year subscription / fee	14 865 327	14 652 657
Amount paid - current year	(15 562 350)	(173 524)
Amount paid - previous years	(8 055 926)	(5 232 537)
	5 726 184	**14 479 133**

Pension and Medical Aid Deductions

Opening balance	40 297 973	29 657 332
Current year subscription / fee	29 230 037	31 522 475
Amount paid - current year	(8 492 267)	-
Amount paid - previous years	(3 101 902)	(20 881 834)
	57 933 841	**40 297 973**

Notes to the Annual Financial Statements

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47. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	23 623 751	21 163 324
VAT payable	28 264 243	19 476 006
	51 887 994	**40 639 330**

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor M.E. Mjika	90	1 020	1 110
Councillor T.A. Phafudi	400	3 138	3 538
Councillor S.A. Sola	4 132	6 261	10 393
Councillor K.E. Dlomo	821	7 572	8 393
Councillor J. Moitse	1 201	88 784	89 985
Councillor P.D. Basholo	378	19	397
Councillor J. Jan	562	71 208	71 770
Councillor L.M. Makoa	437	27	464
Councillor M.J. Moeketsi	800	100 314	101 114
	8 821	**278 343**	**287 164**

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor K.E. Dlomo	504	6 903	7 407
Councillor T.A. Phafudi	268	2 887	3 155
Councillor M.J. Mjika	984	10 231	11 215
Councillor M.J. Moitse	2 380	83 389	85 769
Councillor M.J. Moeketsi	9 955	88 296	98 251
Councillor M.J. Phoba	832	25 910	26 742
Councillor N.M. Jan	1 612	67 965	69 577
Councillor T.X. Matwa	1 553	26 837	28 390
Councillor S.A. Sola	1 674	7 205	8 879
	19 762	**319 623**	**339 385**

Deviations from Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident		
Goods and Service available from a single supplier	430 364	365 727
Impractical or impossible to obtain at least three quotations	216 651	608 674
Emergency procurement	94 700	-
	741 715	**974 401**

Notes to the Annual Financial Statements

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47. Additional disclosure in terms of Municipal Finance Management Act (continued)

Non-compliance with Municipal Finance Management Act

During the current financial year the following non-compliance issues were identified:

- The municipality did not comply with section 65(2)(e) that requires the municipality to pay their creditors within 30 days of receiveing relevant document.
- The municipality did not comply with section 126(1)(a), requirering the financial statements to be prepared and submitted to the Auditor-General for auditing, within two months after the end of the financial year, being 30 June 2018.

48. Utilisation of Long-term liabilities reconciliation

	2018	2017
Long-term liabilities raised	1 089 432	1 269 361

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

49. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

50. Budget differences

Material differences between budget and actual amounts

50.1 - The variance was as a result of the municipality not budgeting for the sale of goods.

50.2 - The variance was due an increase in approved indigents subsidies.

50.3 - The variance was as a result of the municipality not budgeting for the revenue derived from rendering of services.

50.4 - The variance was due to an unticipated increase in the renatals in the current year.

50.5 - The variance was due to the decrease in the prime-lending rate.

50.6 - The variance was as a result of the municipality not budgeting for insurance claims.

50.7 - The variance was due an anticipated decrease in the ad-hoc revenue of the municipality due to economic changes.

50.8 - The variance between the budgeted interest received from investment and the actual revenue is immaterial.

50.9 - The variance between the budgeted revenue from property rates and the actual revenue is immaterial.

50.10 - The variance was due to the withholding of the portion of the gazzetted equitable share due to prior year unspent conditional grant.

50.11 - The variance between the budgetd personnel costs and the actual cost is immaterial.

50.12 - The variance between the budgetd remuneration of councillors and the actual cost is immaterial.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

50. Budget differences (continued)

50.13 -The variance was as a result of the municipality including the budget for administration costs in the budget for general expenses.

50.14 - The variance was as a result of the municipality including the budget for impairment loss in the budget for depreciation and amortisation.

50.15 - The variance was as a result of the municipality including a majour part of the budget for finance costs in the budget for general expenses.

50.16 - The variance was as a result of the municipality including the budget for lease rentals on operating lease in the budget for general expenses.

50.17 - The variance was due to an anticipated increase in the debtors impairment movements as a result of a decrease in payment receipts from consumer debtors.

50.18 - The variance was as a result of the municipality including in the budget for general expense the budget for the repairs and maintenance.

50.19 - The variance between the budgeted bulk purchases and the actual cost is immaterial.

50.20 - The variance was as a result of the municipality including in the budget for the general expense the budget for the repairs and maintenance, the budget for the lease rentals on operating lease, the budget for finance costs, the budget for impairment loss, and the budget for administration cost.

50.21 - The variance was as a result of the municipality not budgeting for the actuarial gains and losses.